

**Internal Revenue Service**  
P.O. Box 2508  
Cincinnati, OH 45201

**Department of the Treasury**

Release Number: **201621018**  
Release Date: 5/20/2016  
**Date: February 26, 2016**

**Employer Identification Number:**

**Contact person - ID number:**

Name of Private Foundation  
Address  
Address

**Contact telephone number:**

**LEGEND**

UIL: 4945.04-04

C= Geographical Region  
x= lower grant threshold amount  
y= higher grant threshold amount

Dear           :

You asked for advance approval of your educational grant and loan procedures under Internal Revenue Code sections 4945(g)(1) and 4945(g)(3). This approval is required because you are a private foundation that is exempt from federal income tax.

**Our determination**

We approved your procedures for awarding educational grants and loans. Based on the information you submitted, and assuming you will conduct your program as proposed, we determined your procedures for awarding scholarships meet the requirements of Code section 4945(g)(1). We also determined your procedures for awarding educational grants and loans meet the requirements of Code section 4945(g)(3). As a result, expenditures you make under these procedures won't be taxable.

Also, awards meeting the requirements of Code section 4945(g)(1) which are made under these procedures are scholarship or fellowship grants and are not taxable to the recipients if they use them for qualified tuition and related expenses (subject to the limitations provided in Code section 117(b)).

**Description of your request**

Your request indicates that you plan to award scholarships to individuals under section 4945(g)(1) to enable them to further their education at university by enrolling into programs leading to bachelor's, master's, or doctoral degrees.

You will also provide educational grants under section 4945(g)(3) to those who wish to improve their skills and abilities through non-degree courses, executive education, or similar learning opportunities.

You do not currently award educational loans but may in future offer soft, low-interest loans under 4945(g)(3) to students which they would not need to repay until they have graduated and have been afforded an interest-free period of time to seek employment.

Awards may range from under \$x (for students needing help with only a portion of their tuition or for open courses and executive education) to, in rare instances, over \$y (representing full tuition at a top university for the length of years necessary to complete the degree). For all awards, the amount is determined by a consideration of the type of education program the applicant is applying to, the socioeconomic status of the applicant, past academic performance, proven leadership ability, the applicant's commitment to the C region and community, and your available resources.

The program will be publicized on your website, amongst networks of universities and high schools, and occasionally via media. To be eligible, potential applicants must have a strong tie or connection to the C region (e.g., born there, studied or lived there for a long period of time, be of descent, etc.). Recipients will be chosen by a selection committee based on past academic performance, leadership potential, and economic need. Selection committee members (a total of three) will be chosen by your governing body and are expected to be persons with strong ties to either the academic or business world, such as teachers, academics, or business executives. The number of grants each year will be decided by your board based on financial projections and availability of funds.

Disqualified persons are ineligible for any grants or loans. Relatives of selection committee members are also not eligible.

For the students you select, you will pay grant funds directly to their academic institution to be applied to their tuition and other expenses. In the case of large awards that cover the entire year or more than one year, distributions to the institution would be made in accordance with the school's regular tuition payment schedule.

Students must furnish grade transcripts to you upon request. You have represented that you will arrange to receive and review such reports at least annually. If you become aware that the terms of an award have been violated, you will communicate the violation to the award recipient and try to have the violation corrected. If correction is not possible, you will withhold all further distributions to the recipient and, in special cases, may require the recipient to return some or all of the grant amount to you.

### **Basis for our determination**

The law imposes certain excise taxes on the taxable expenditures of private foundations (Code section 4945). A taxable expenditure is any amount a private foundation pays as a grant to an individual for travel, study, or other similar purposes. However, a grant that meets all of the following requirements of Code section 4945(g) is not a taxable expenditure.

- The foundation awards the grant on an objective and nondiscriminatory basis.

- The IRS approves in advance the procedure for awarding the grant.
- The grant is:
  - A scholarship or fellowship subject to section 117(a) and is to be used for study at an educational organization described in section 170(b)(1)(A)(ii); or
  - A prize or award subject to the provisions of section 74(b), if the recipient of the prize or award is selected from the general public; or
  - To achieve a specific objective; produce a report or similar product; or improve or enhance a literary, artistic, musical, scientific, teaching, or other similar skill or talent of the recipient.

To receive approval of its educational grant procedures, Treasury Regulations section 53.4945-4(c)(1) requires that a private foundation show:

- The grant procedure includes an objective and nondiscriminatory selection process.
- The grant procedure results in the recipients performing the activities the grants were intended to finance.
- The foundation plans to obtain reports to determine whether the recipients have performed the activities that the grants were intended to finance.

Long-term, low-interest loans that private foundations make for educational purposes can be considered grants under Code section 4945(g)(3) and Revenue Ruling 77-434.

**Other conditions that apply to this determination**

- This determination covers only the grant and loan program described above. This approval will apply to succeeding grant and loan programs only if their standards and procedures don't differ significantly from those described in your original request.
- This determination applies only to you. It may not be cited as precedent.
- You cannot rely on the conclusions in this letter if the facts you provided have changed substantially. You must report any significant changes in your program to the Cincinnati Office of Exempt Organizations at:

Internal Revenue Service  
Exempt Organizations Determinations  
P.O. Box 2508  
Cincinnati, OH 45201

- You cannot make grants or loans to your creators, officers, directors, trustees, foundation managers, or members of selection committees or their relatives.

- All funds distributed to individuals must be made on a charitable basis and must further the purposes of your organization. You cannot award grants for a purpose that is inconsistent with Code section 170(c)(2)(B).
- You should keep adequate records and case histories so that you can substantiate your grant and loan distributions with the IRS if necessary.

Please keep a copy of this letter in your records.

If you have any questions, please contact the person listed at the top of this letter.

Sincerely,

Jeffrey I. Cooper  
Director, Exempt Organizations  
Rulings and Agreements